

KA05
Department of Natural Resources – Capital

Capital Budget Summary

Grant and Loan *Capital Improvement Program*
(\$ in Millions)

Program	2017 Approp.	2018 Approp.	2019 Request	2020 Estimate	2021 Estimate	2022 Estimate	2023 Estimate
POS – Land Acquisition and Local Program	\$43.207	\$71.690	\$111.320	\$123.839	\$128.000	\$125.433	\$133.580
POS – Natural Resources Development Fund	3.062	11.797	14.356	12.000	12.000	12.000	12.000
POS – Critical Maintenance Projects	6.001	6.000	13.000	7.000	7.000	7.000	7.000
Rural Legacy Program	17.663	22.914	25.018	26.193	26.590	26.349	25.899
Ocean City Beach Maintenance	1.000	2.000	2.000	2.000	2.000	2.000	2.000
Waterway Improvement Program	12.600	11.400	15.000	15.000	15.000	15.000	15.000
Community Parks and Playgrounds	2.500	2.500	2.500	2.500	2.500	2.500	2.500
Oyster Restoration Program	3.300	2.729	0.270	2.610	8.730	3.870	7.170
Coastal Resiliency Program	0.000	0.540	4.725	5.957	4.600	0.700	0.000
Total	\$89.333	\$131.570	\$188.189	\$197.098	\$206.420	\$194.852	\$205.149

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Fund Source	2017 Approp.	2018 Approp.	2019 Request	2020 Estimate	2021 Estimate	2022 Estimate	2023 Estimate
PAYGO SF	\$73.785	\$117.901	\$170.194	\$175.531	\$180.090	\$177.282	\$184.979
PAYGO FF	4.748	3.900	5.500	5.500	5.500	5.500	5.500
GO Bonds	10.800	9.769	12.495	16.067	20.830	12.070	14.670
Total	\$89.333	\$131.570	\$188.189	\$197.098	\$206.420	\$194.852	\$205.149

FF: federal funds

GO: general obligation

PAYGO: pay-as-you-go

POS: Program Open Space

SF: special funds

Note: The fiscal 2020 through 2023 special fund figures include the repayment of transfer tax revenues diverted to the General Fund in prior years as required by Chapter 10 of 2016 and reflect a revised repayment plan as set forth in the 2018 *Capital Improvement Program*.

Summary of Issues

Coastal Resiliency Program Will Need New Funding Models: The Coastal Resiliency Program (CRP) is experiencing a steep learning curve. Fiscal 2018 project estimates are already being modified to reflect better information about project needs, and yet the 2018 *Capital Improvement Program* (CIP) already reflects final funding for the program in fiscal 2022. Alternative funding models may help CRP continue its work past fiscal 2022. **The Department of Legislative Services (DLS) recommends that the Department of Natural Resources (DNR) comment on what an entity like the Rhode Island Infrastructure Bank would look like in Maryland, and the financial calculations that support and incentivize investment in resilience projects and programs.**

Capital Development Program Staffing Needed: Through the Critical Maintenance Program and the Natural Resources Development Fund, DNR manages an enormous number of individual projects to ensure that State parks remain operational and open to the public. In recent years, the department has struggled with maintaining an optimal staffing level to ensure timely project administration. In order to improve project management, staffing and funding changes are under consideration and public-private partnerships (P3) are being explored. **DLS recommends that DNR comment on the optimal staffing levels within DNR and the Department of General Services (DGS) in order to complete the planned Critical Maintenance Program and Natural Resources Development Fund projects.**

Oyster Shell Access and Restoration Work: Maryland has now selected a total of five tributaries for oyster restoration. The first three tributaries chosen were Harris Creek, the Little Choptank River, and the Tred Avon River. In December 2017, Breton Bay and St. Mary's River were added to the list of tributaries for oyster restoration. The Man O'War Shoal near the mouth of the Patapsco River is a leading candidate for shell provision. The permit to dredge Man O'War Shoal is still under review by the Maryland Department of the Environment (MDE) and the U.S. Army Corps of Engineers'

regulatory division; both are awaiting one additional approval step before they make their decisions. **DLS recommends that DNR comment on the timeline for the restoration of the Breton Bay and the St. Mary's River oyster sanctuaries, and the importance of oyster shells from the Man O'War Shoal in this effort.**

Summary of Updates

Bloede Dam Removal Status: Bloede Dam is located in Patapsco River State Park and was built in 1907. The dam is a public safety threat and is an obstacle for fish passage. DNR notes that the project is in Phase 1: relocation of the 42-inch sanitary sewer line. The actual removal of the dam is planned to begin in September 2018, and the project is scheduled for completion in April 2019. However, additional funding is needed due to the general hazards of working in the Patapsco River and site conditions that differ from what was shown on the approved plans.

College of Southern Maryland Funding for the La Grange Property: Fiscal 2018 budget bill language restricted \$980,000 in the Program Open Space (POS) State land acquisition special fund appropriation for providing a grant to the College of Southern Maryland to purchase the La Grange property located in Charles County, the home of Dr. James Craik and the birthplace of Josiah Henson, a leader of the Underground Railroad. In addition, a report was required on the short- and long-term plan for the property and historical structures. It was determined that the National Park Service would be engaged as a possible recipient of the property and that a longer term resolution to the preservation of the La Grange property should be sought.

Summary of Recommended PAYGO Actions

	<u>Funds</u>
1. General Direction	\$2,000,000 SF
Reduce funding for the Cambridge Marine Terminal – New Steel Bulkhead project.	
2. Concur with Governor's allowance for the Ocean City maintenance local funding.	
3. Add language modifying the Outdoor Recreation Land Loan allocation to reflect the State's share of funding for the Maryland Heritage Areas Authority.	
4. Add language prohibiting funding for the Cambridge Marine Terminal.	
Total PAYGO Reductions	\$2,000,000

Summary of Recommended Bond Actions

1. Community Parks and Playgrounds

Approve the authorization for Community Parks and Playgrounds.

2. Rural Legacy Program

Approve the authorization for the Rural Legacy Program.

3. Coastal Resiliency Program

Approve the authorization for the Coastal Resiliency Program.

4. Oyster Restoration Program

Approve the authorization for the Oyster Restoration Program.

Program Description

The mission of the DNR capital program may be summarized as the protection of Maryland's open space lands, shorelines, waterways, and natural resources while providing outdoor recreation opportunities in cooperation with federal and local governments. The capital program is comprised of POS (including the Natural Resources Development Fund and Critical Maintenance Program), the Rural Legacy Program, Ocean City Beach Maintenance, the Waterway Improvement Program (WIP), Community Parks and Playgrounds, the Oyster Restoration Program, and the new CRP as of fiscal 2018. The Chesapeake and Atlantic Coastal Bays 2010 Trust Fund received general obligation (GO) bond authorization in fiscal 2013 through 2015 but is not programmed to receive funding beyond fiscal 2015. Descriptions of the programs follow.

- ***POS – Land Acquisition and Local Program:*** Title 5, Subtitle 9 of the Natural Resources Article established POS for the purpose of expediting the acquisition of outdoor recreation and open space areas and the provision of recreation facilities before land is devoted to other purposes. The POS appropriation has historically been split between the State and local governments. While both State acquisitions and local grants fund projects that protect open space and provide recreation facilities, State acquisitions tend to place a greater emphasis on natural resource management. State POS funds are allocated for State land acquisition and operation. In addition, POS funds are allocated to capital improvements and critical maintenance, which are described as separate programs. Local recreation and parks departments use local POS funds for acquisition, development, and planning projects. Primary funding for POS has historically been provided by the State transfer tax of 0.5% of the consideration paid for the transfer of real property from one owner to another. POS administers the Heritage Conservation Fund, which is used to acquire land that provides habitat for rare,

threatened, and endangered species through an easement or fee simple purchase and supported by 1.8% of the annual transfer tax revenue.

- ***POS – Natural Resources Development Fund:*** State law allows up to 25.0% of the POS funds allocated to the State to be used for capital development projects and for operating expenses at State forests and parks. The Natural Resources Development Fund provides support to design and construct development projects on DNR property. Capital development projects include shower buildings, building renovations, road parking and trail improvements, and general park improvements. In addition, the Natural Resources Development Fund has taken on the funding for dam rehabilitations.
- ***POS – Critical Maintenance Program:*** DNR maintains over 1,900 buildings, hundreds of miles of roadway, parking lots, and a variety of water-associated facilities that serve millions of visitors annually. Critical maintenance projects include structural repairs to buildings, bridge repairs, well and septic system replacement, and road and utility repairs. Based on project requests submitted by DNR facility managers during the past year, there is a \$44.0 million (602 projects) backlog in necessary critical maintenance projects at all DNR facilities – State forests and parks, wildlife management areas, fisheries facilities, and others – which is an increase in both the overall cost and the number of projects since February 2017 (\$36.4 million and 585 projects). DNR and DGS both manage critical maintenance projects. DNR handles procurement for projects that cost \$50,000 or less (the majority of projects), and DGS handles procurement for projects that cost more than \$50,000.
- ***Rural Legacy Program:*** The purpose of the Rural Legacy Program is to protect agricultural and natural resources land from sprawl development and thus to promote resource-based economies and to develop greenbelts. Program funds are used to purchase conservation easements on land based on Rural Legacy Areas recommended by the Rural Legacy Board (composed of the Secretary of Natural Resources, the Secretary of Planning, and the Secretary of Agriculture) and approved by the Board of Public Works (BPW). Under § 5-9A-09 of the Natural Resources Article, the Governor is required to include at least \$5.0 million annually in GO bond funds for the Rural Legacy Program separate and apart from what the program is allocated through the transfer tax formula.
- ***Ocean City Beach Maintenance:*** The Ocean City Beach Maintenance Fund was established to fund annual maintenance for the Ocean City beach replenishment project. When the fund was established, the State entered into a funding agreement with Worcester County and Ocean City. The funding agreement stipulates that the following amounts be provided annually: not less than \$1.0 million from the State and not less than \$500,000 each from the county and the city. Periodic nourishment is deemed the most cost-effective method of maintaining the beach over a 50-year period. Transfer tax revenue within POS or GO bonds are used to fund the State's contribution to this effort. Upon reaching a \$15.0 million cap in the fund, no funding is required to be provided by the State or local governments. Nourishment of the Ocean City beach is usually done on a four-year cycle. The U.S. Army Corps of Engineers is responsible for developing estimates, plans, and managing construction contracts for the periodic nourishment

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efforts and costs are usually shared: 53.0% federal and 47.0% State, Ocean City, and Worcester County.

- ***Waterway Improvement Fund:*** The Waterway Improvement Fund (WIF) finances projects to expand and improve public boating access throughout the State. The 5.0% excise tax paid on the sale of motorized vessels within the State, up to \$15,000 per vessel, and 0.5% of the motor vehicle fuel tax support the fund, per Chapter 180 of 2013 (Natural Resources – Vessel Excise Tax – WIF). Funding is provided in the form of grants and/or long-term, interest-free loans to local governments, DNR, and some federal government agencies, as follows: (1) grants (100.0%) not to exceed \$5,000; (2) grants (100.0%) less than \$100,000; (3) public navigation improvement and DNR boating facility construction grants (100.0%) of unlimited amounts; (4) matching grants with a maximum State cost share (50.0%); and (5) interest-free loans (100.0%) with a 25-year maximum. Additional funding specifications are provided for dredging/navigation projects and boating access facility/boating safety projects.
- ***Community Parks and Playgrounds:*** The program provides flexible grants to municipalities and Baltimore City – counties are no longer eligible – to (1) rehabilitate, expand, improve, or maintain existing parks; (2) purchase land to create new parks; (3) develop new parks; (4) purchase and install playground equipment in urban neighborhoods and rural areas throughout the State; or (5) be used for environmentally oriented parks and recreation projects. While land acquisition costs are considered, highest priority is given to capital costs associated with park and playground development and improvement.
- ***Oyster Restoration Program:*** The Oyster Restoration Program provides funding to construct and rehabilitate oyster bar habitat and provide for aquaculture infrastructure improvements. Funding is guided by Maryland’s oyster plan, which includes goals to rehabilitate oyster bar habitat identified in a best oyster bar survey conducted in fall 2009 and to increase commercial oyster production by aquaculture. In addition, Maryland is guided by the new Chesapeake Bay Agreement signed in June 2014, which has the following goal: “Restore native oyster habitat and populations in 10 tributaries by 2025 and ensure their protection.” Based on a U.S. National Oceanic and Atmospheric Administration oyster workgroup, the program has adopted the following restoration goals: (1) restoring 50.0% to 100.0% of currently restorable oyster habitat at the tributary level; and (2) achieving a mean density of 50 oysters per square meter and 50 grams dry weight per square meter, containing at least two generations, and covering at least 30.0% of the reef area at the reef level.
- ***CRP:*** The CRP is a new addition to DNR’s portfolio as of fiscal 2018. Funding is provided to restore actively eroding shoreline using living shoreline techniques and offshore breakwaters along the State’s coast. Project selection is guided by the Maryland Coastal Resiliency assessment published in March 2016. The assessment is a collaborative effort between DNR’s Chesapeake and Coastal Service and The Nature Conservancy and was designed to inform coastal conservation and restoration decisions by determining where living shoreline technique and offshore breakwaters can help Maryland’s coastal communities become more resilient. Funding is based on the following factors: (1) the vulnerability of the habitat and community; (2) the project readiness and status (designed/permitted); (3) the location and priority tier within

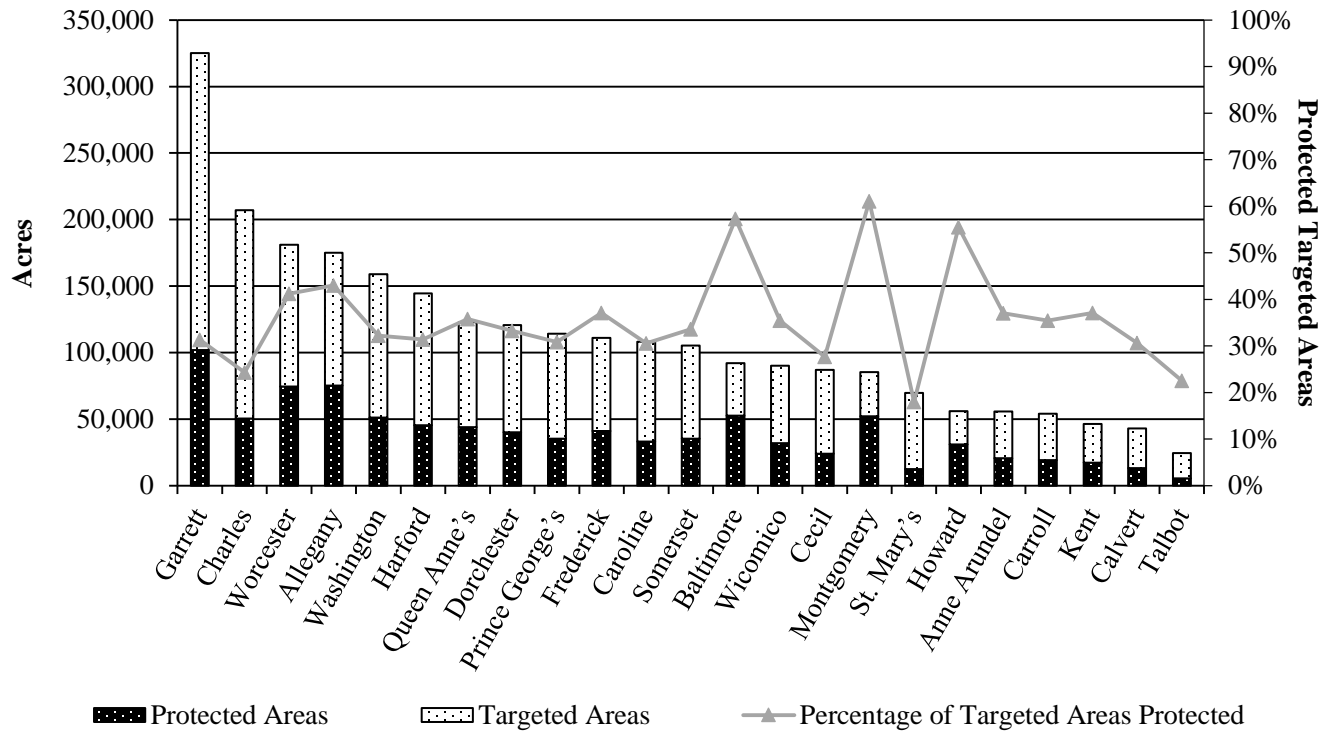
the Maryland Coastal Resiliency Assessment; (4) the level of community engagement; and (5) broader ecosystem services.

Performance Measures and Outputs

DNR uses a two-step process for targeting and ranking land conservation. First, there is an ecological screen, which involves DNR using an ecological baseline to select targeted ecological areas – areas with the highest ranking for green infrastructure, species diversity, and water quality – and review properties relative to connected hubs and corridors, ecologically significant areas, and restoration opportunities. Second, DNR uses a parcel screen to assess a potential acquisition based on ecological value, special adjustments made for multiple benefits, management and operations responsibility identification, consistency with local land use, and vulnerability to additional development. All of this information is summarized in GreenPrint, the online geographic information system tracking program for preserved land and targeted ecological areas, which is available for local governments to use in their planning and zoning work. DNR notes that it will still buy some property outside of the targeted ecological areas for exceptional recreational, cultural, historical, educational, water access, resource-based economic, and in-holding/management purposes in existing DNR managed property holdings.

Maryland’s targeted ecological areas total 2,578,651 acres, no changes from last year. To date, 908,340 acres have been protected, up from 897,952 acres at this time last year, leaving 1,670,311 acres still to be protected. As shown in **Exhibit 1**, Garrett (325,208 acres), Charles (207,129 acres), and Worcester (181,008 acres) counties continue to be the top three counties in terms of targeted ecological areas. The three counties with the highest percentage of targeted ecological areas protected are Montgomery (61%), Baltimore (57%), and Howard (56%) counties.

Exhibit 1
Protected and Targeted Ecological Areas
February 2018

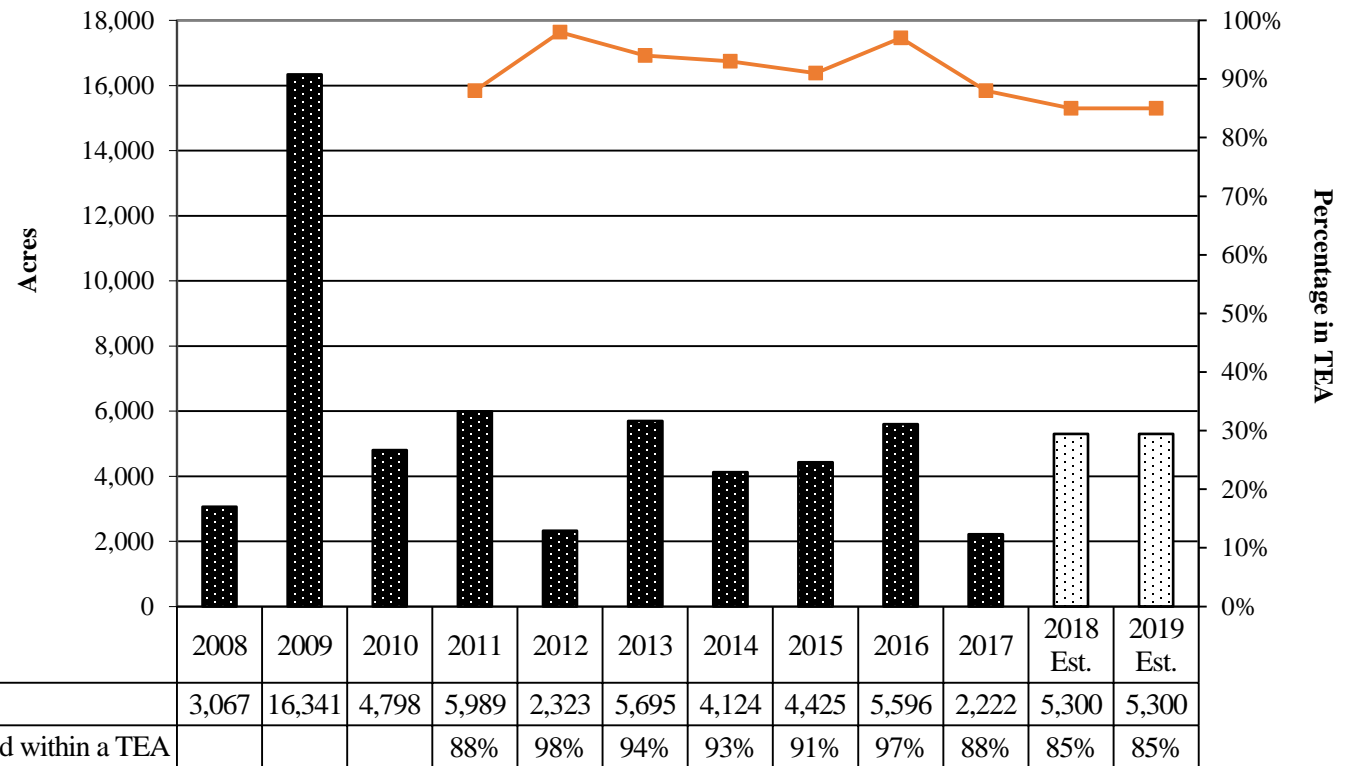


Note: The acres shown as protected within targeted ecological areas include total acres protected by all State, local, and federal programs as well as by nonprofit organizations.

Source: Department of Natural Resources

As illustrated in **Exhibit 2**, there was a decrease in POS – State and POS – local acquisition acres approved by BPW between fiscal 2016 (5,596 acres) and 2017 (2,222 acres). DNR notes that there were two large acquisition projects – a 1,664 acre transaction and a 2,009 acre transaction – that were originally anticipated to be presented to BPW in fiscal 2017 but ultimately were approved in fiscal 2018, which had the effect of depressing the acres approved by BPW in fiscal 2017. DNR projects a return to a more recent historical number of POS acquisition acres approved by BPW for fiscal 2018 and 2019. DNR has a measure that reflects the percentage of acres funded by POS – State that are located within a targeted ecological area. The highest percentage shown is 98% in fiscal 2012, and most recently was 97% in fiscal 2016. In terms of historical POS acquisition acreage numbers, the fiscal 2009 acreage approved reflects two large property purchases – the Maryland Province properties (4,474 acres) and the Smith Foster Furnace property (4,769 acres) – and the fiscal 2013 acreage included 2,352 acres of easements in Dorchester and Queen Anne's counties donated to POS by the Conservation Fund.

Exhibit 2
POS Acquisition Acres Approved by the Board of Public Works
Fiscal 2008-2019 Est.



BPW: Board of Public Works
 POS: Program Open Space
 TEA: Targeted Ecological Area

Note: The fiscal 2013 acreage includes 2,352 acres donated to POS by the Conservation Fund. The acres approved by BPW reflect both POS – State and POS – Local funding, while the percentage of acres located within a TEA only reflects POS – State funding.

Source: Governor’s Budget Books, Fiscal 2006-2016; Department of Budget and Management

POS funding expanded the number of State parks acreage available to the public in fiscal 2018. Through February 8, 2018, 2,369 acres have been added, as shown in **Exhibit 3**. The greatest number of acres added to a single park is 2,009 acres added for a new State park in Garrett County.

Exhibit 3
Maryland State Parks Acreage Increase from Program Open Space Acquisitions
July 1, 2017, through February 8, 2018

<u>County</u>	<u>BPW Date</u>	<u>Area</u>	<u>Managing Unit</u>	<u>Acres</u>
Allegany	7/5/2017	Will's Mountain State Park	Parks	8
Washington	7/5/2017	Woodmont NRMA	Parks	10
Frederick	7/26/2017	South Mountain State Park	Parks	5
Harford	9/6/2017	Gunpowder Falls State Park	Parks	110
Garrett	9/20/2017	New State Park – Area Name TBD	Parks	2,009
Kent	11/17/2017	Sassafras NRMA	Parks	191
Frederick	12/6/2017	Cunningham Falls State Park	Parks	3
Washington	12/20/2017	Greenbrier State Park	Parks	13
Caroline	1/3/2018	Tuckahoe State Park	Parks	20
Total				2,369

BPW: Board of Public Works

NRMA: Natural Resources Management Area

TBD: to be determined

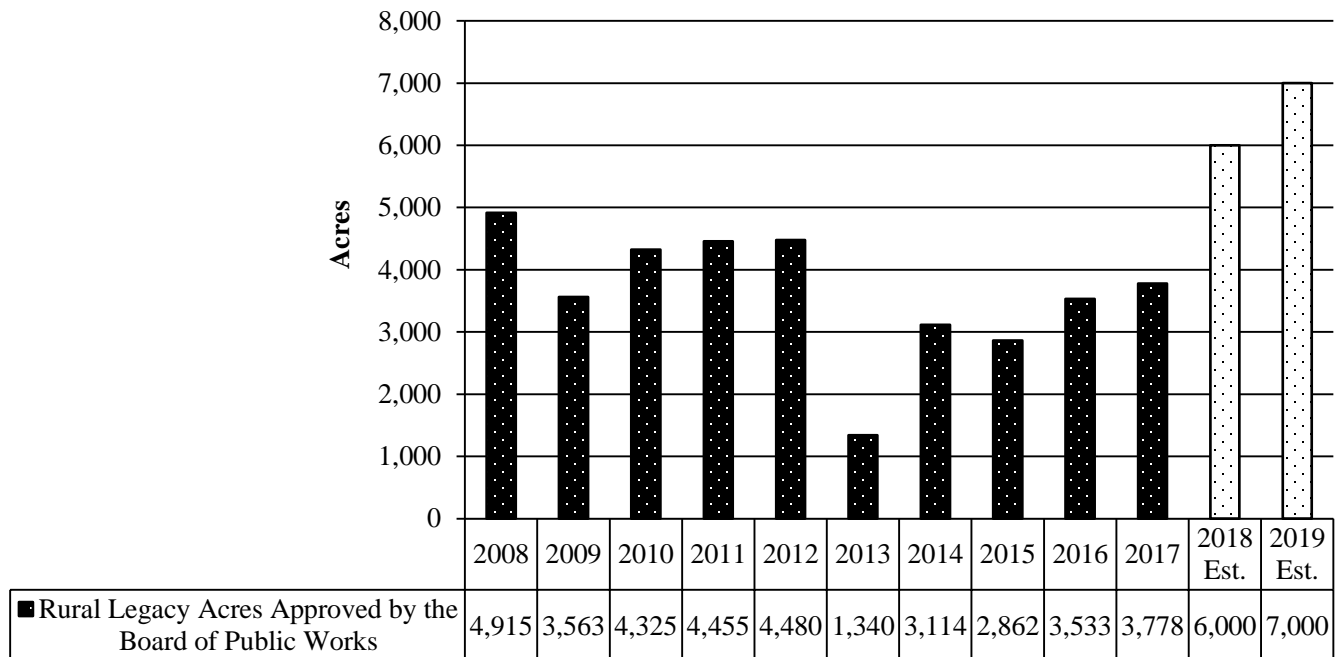
Source: Department of Natural Resources

Rural Legacy Program

Exhibit 4 shows that the number of approved Rural Legacy Program easement and fee simple acres increased 7% from 3,533 acres in fiscal 2016 to 3,778 acres in fiscal 2017, although the estimate for fiscal 2017 was 5,000 acres. There was an increase in funding between the two years but the number of approved acres does not reflect this full increase due to the time it takes to complete the due diligence necessary to complete the project. DNR obligates funds for projects when the year's annual grant awards are taken to BPW, but it may take up to a year for signed projects to be approved by BPW, which constitutes encumbrances. The Rural Legacy Program receives requests that total \$97 million on average each year, which reflects a slight decrease in recent years because DNR has requested that the Rural Legacy Areas only submit their top priority projects due to limited funding. In terms of goals, as of November 2017, 91,398 Rural Legacy Program acres are counted toward the calendar 2022 1,030,000-acre preservation goal from Senate Joint Resolution 10 of 2002. Another goal is for each

Rural Legacy Area to be at least 80% permanently preserved, including land protected by other State, local, and federal programs and by nonprofit organizations.

Exhibit 4
Rural Legacy Easement and Fee Simple Acres
Approved by the Board of Public Works
Fiscal 2008-2019 Est.

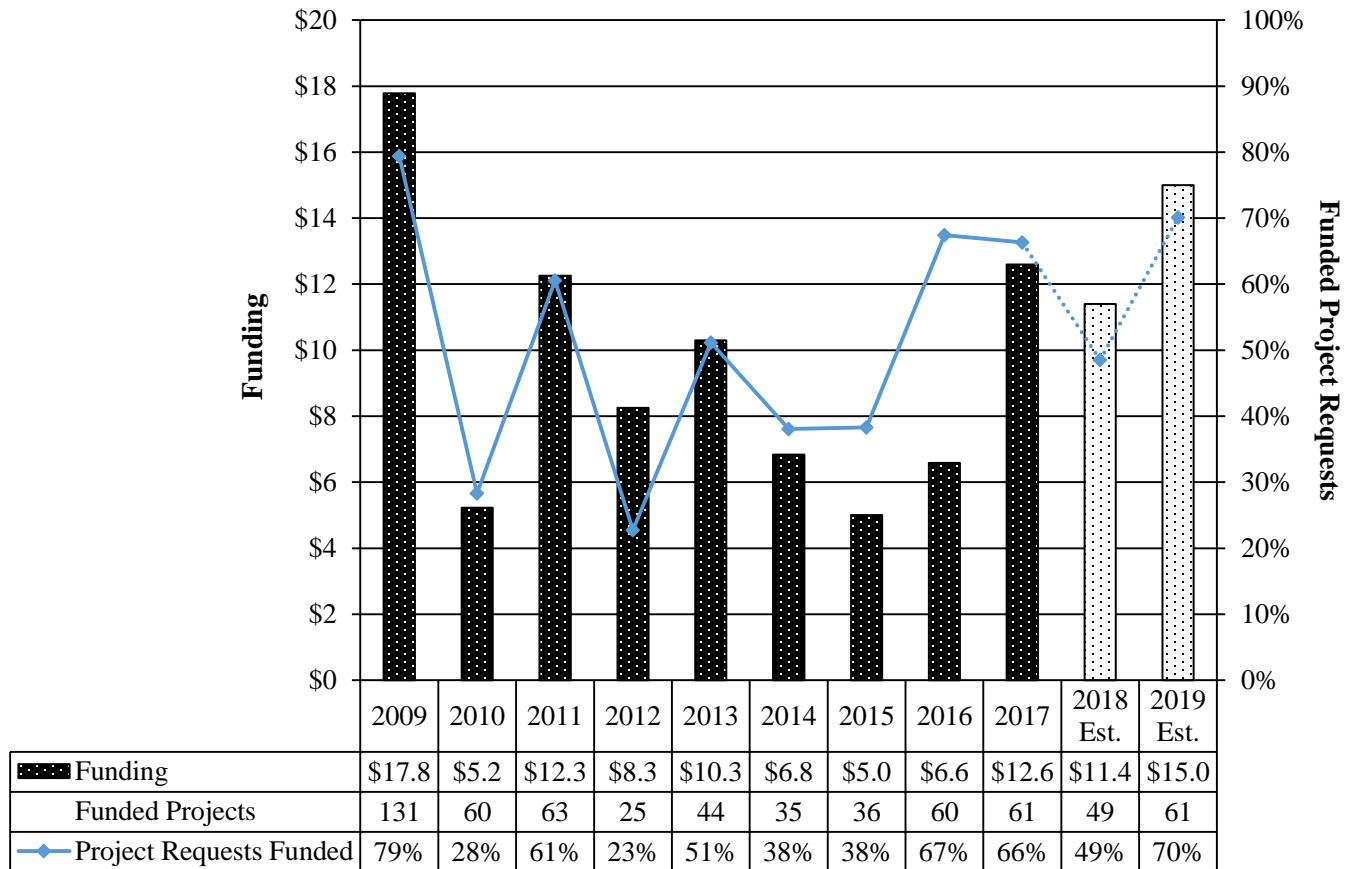


Source: Governor's Budget Books, Fiscal 2007-2016; Department of Budget and Management

WIP

As illustrated in **Exhibit 5**, the fiscal 2019 allowance will allow WIP to fund an estimated 70% of the waterway project requests submitted; DNR has noted in the past that it has informed local jurisdictions to limit grant requests to those of the highest priority. DNR's goal is to fund 80% of project requests; therefore, the fiscal 2019 allowance is 10% lower than the goal.

Exhibit 5
Waterway Project Requests Funded
Fiscal 2009-2019 Est.
(\$ in Millions)

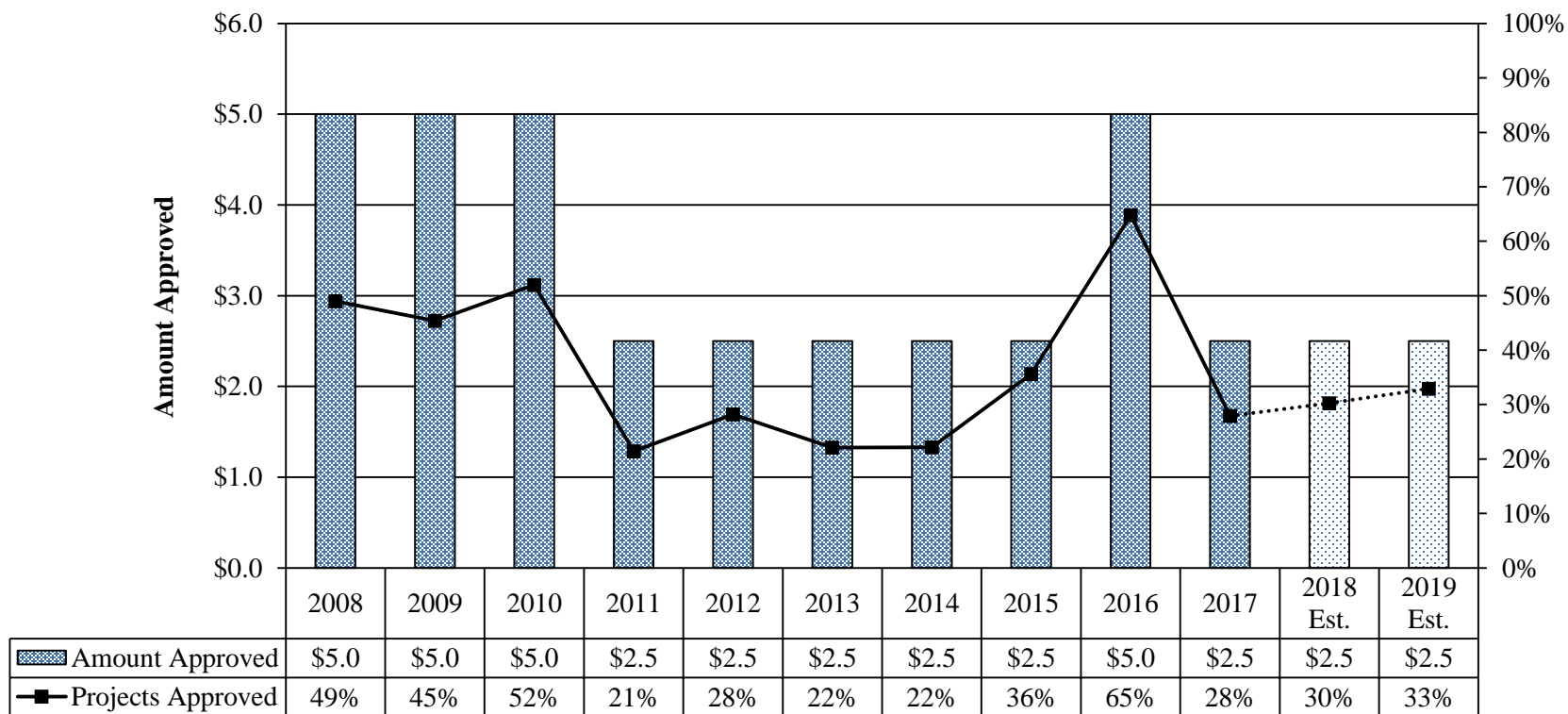


Source: Department of Budget and Management; Department of Natural Resources

Community Parks and Playgrounds

Exhibit 6 reflects the amount of funding approved for Community Parks and Playgrounds projects and the percent of projects requested that are approved. As illustrated, in recent years, the reduction in annual funding from \$5.0 million to \$2.5 million has reduced the percent of projects that are approved. In fiscal 2016, the General Assembly added \$2.5 million to the Governor's authorization, and thus, the number of projects approved increased. DNR notes that, in addition to the number of projects that seek funding, the per project cost must also be considered when looking at year-to-year comparisons.

Exhibit 6
Community Parks and Playgrounds Funding
Fiscal 2008-2019 Est.
(\$ in Millions)



Source: Department of Budget and Management; Department of Natural Resources

CRP

CRP does not have any Managing for Results measures associated with its fiscal 2019 funding. DNR notes that it has been evaluating the project phases (identification, contract, design, permitting, construction) and the time period between each phase. In addition, DNR is tracking project costs and working with university and State agency experts to develop site specific monitoring protocols to evaluate and track project success.

Budget Overview

Fiscal 2018 Budget Actions

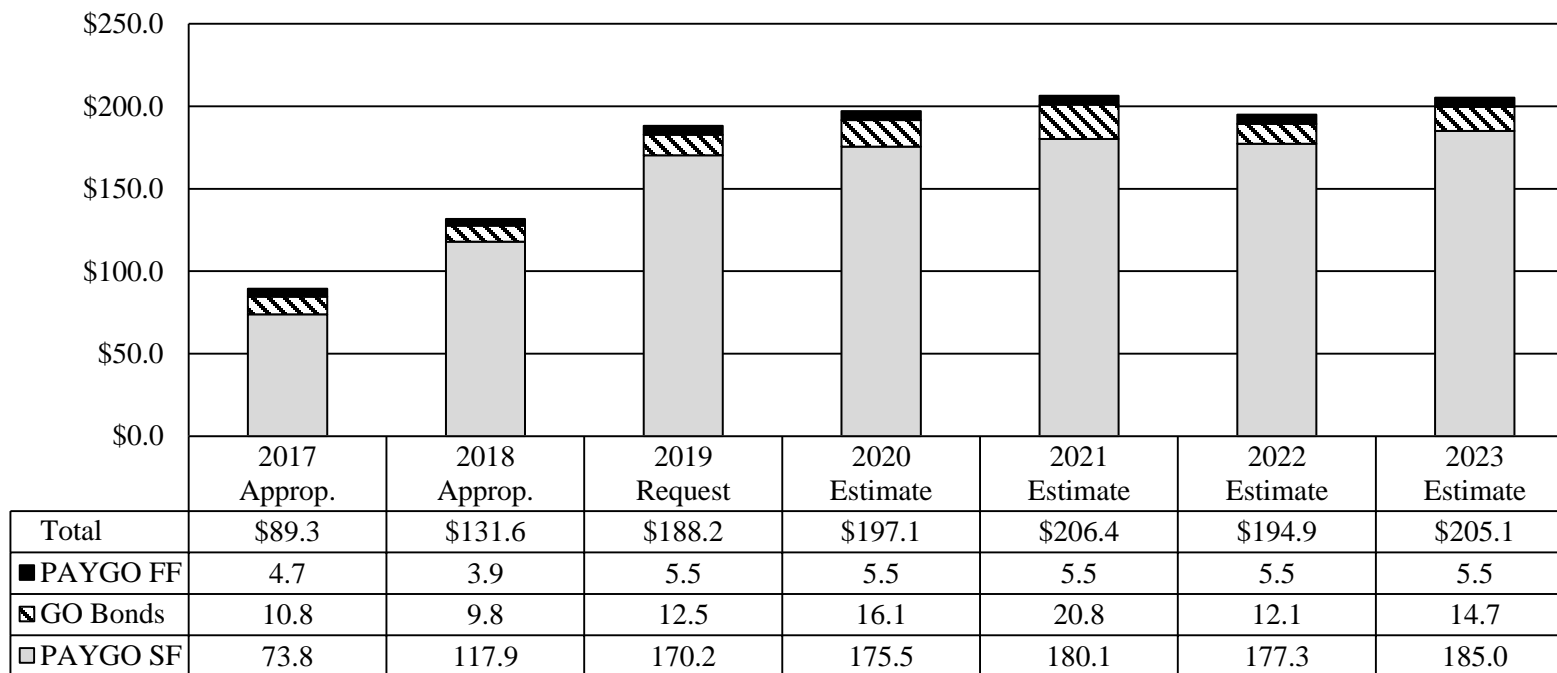
Proposed Deficiencies

The Governor has submitted deficiency appropriations for the fiscal 2018 pay-as-you-go (PAYGO) operating budget for capital development that would increase DNR's appropriation by \$243,348, comprised of \$43,348 in special funds and \$200,000 in federal funds. The special funds come from Private Donation and would provide for repairs at Brownsville Pond under an agreement with Washington County; the project is part of the Dam Improvement Fund. The increase of \$200,000 in federal funds comes from U.S. Department of the Interior – National Park Service's Land and Water Conservation Fund grants and would provide for replacement of the Captain John Smith Plaza Playground at Sandy Point State Park; the project is part of the Natural Resources Development Fund.

Fiscal 2019 Budget

The fiscal 2019 allowance includes \$175.5 million in special funds, \$5.5 million in federal funds, and \$12.5 million in GO bonds, or a total of \$188.2 million. **Exhibit 7** shows the restoration of the transfer tax special funds since there are no more planned transfers to the General Fund, the repayment of the fiscal 2006 and 2016 to 2018 transfers to the General Fund in fiscal 2020 through 2023, and the overall increase in funding due to the estimated transfer tax revenue increases over the five-year planning period in the 2018 CIP. However, the special funds programmed for fiscal 2020 through 2023 are not as large as might otherwise be the case because the Natural Resources Development Fund funding is being budgeted in the Maryland Environmental Service capital appropriation for water and wastewater projects on DNR lands.

Exhibit 7
Department of Natural Resources Capital Programs Funding
Fiscal 2017-2023 Est.
(\$ in Millions)



FF: federal funds
GO: general obligation
PAYGO: pay-as-you-go
SF: special funds

Source: Governor's Capital Budget; Department of Budget and Management Capital Budget Worksheets

Fiscal 2019 Repayment Modification

The fiscal 2019 budget plan includes the modification of repayments of transfer tax transfers to the General Fund that were originally authorized by Chapter 425 of 2013 and then subsequently modified by Chapter 10 of 2016. Chapter 10 requires the repayment of \$242.2 million in past redirected transfer tax funds by fiscal 2029. The plan provides for the use of general funds as a source of repayment to be expended as special funds in the budget. The components of the repayment plan and the Governor's proposed changes to each are highlighted further in this analysis. **Exhibit 8** shows the differences in the repayment plan established in the 2017 session to that proposed in the 2018 session. In total, the revised plan proposes to defer \$31.9 million in fiscal 2019 and reprograms those funds for future years. The proposed deferral includes \$15.0 million that is reduced contingent upon a provision in the Budget Reconciliation and Financing Act (BRFA) of 2018 amending the mandated portion of the funding repayment schedule.

- ***Payback for Fiscal 2006 Transfer Tax (to Be Distributed through the Transfer Tax Formula):*** Chapter 10 requires \$15.0 million in each of fiscal 2019 through 2021, for a total repayment of \$45.0 million. A provision in the BRFA of 2018 amends the repayment schedule by deferring the \$15.0 million required in fiscal 2019 to 2022, essentially moving back by one year the total repayment requirement.
- ***Payback for Fiscal 2006 Transfer Tax for Critical Maintenance/Natural Resources Development Fund:*** Chapter 10 requires that \$6.0 million in each of fiscal 2019 through 2024 and \$4.0 million in fiscal 2025, for a total repayment of \$40.0 million, be used to fund DNR Critical Maintenance and Natural Resources Development Fund projects. The statutory repayment schedule remains unchanged in the fiscal 2019 budget submission.
- ***Payback for Fiscal 2016 to 2018 Transfer Tax (to Be Distributed through the Transfer Tax Formula):*** Chapter 10 requires the repayment of \$152.2 million as follows: one-third by fiscal 2021; two-thirds by fiscal 2025; and the full amount by fiscal 2029. This provision provides for some annual funding flexibility, and the fiscal 2019 budget as introduced programs this in equal installments of \$25.4 million in each of fiscal 2020 and 2021, which is revised from what the Administration programmed in the 2017 session that called for equal annual installments of \$16.9 million in each of fiscal 2019 through 2021.

Exhibit 8
Transfer Tax Replacement Plan
Comparison of 2017 and 2018 Session Repayment Plan
Fiscal 2018-2029
(\$ in Millions)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023-2029</u>	<u>Total</u>
2017 Session							
MARBIDCO	\$2.5	\$2.5	\$0.0	\$0.0	\$0.0	\$0.0	\$5.0
POS (Fiscal 2006 Transfer)	0.0	15.0	15.0	15.0	0.0	0.0	45.0
POS (Fiscal 2006 to 2018 Transfers)	0.0	16.9	16.9	16.9	12.7	88.8	152.2
Park Development	0.0	6.0	6.0	6.0	6.0	16.0	40.0
Total	\$2.5	\$40.4	\$37.9	\$37.9	\$18.7	\$104.8	\$242.2
2018 Session							
MARBIDCO	\$2.5	\$2.5	\$0.0	\$0.0	\$0.0	\$0.0	\$5.0
POS (Fiscal 2006 Transfer)	0.0	0.0	15.0	15.0	15.0	0.0	45.0
POS (Fiscal 2006 to 2018 Transfers)	0.0	0.0	25.4	25.4	12.7	88.8	152.2
Park Development	0.0	6.0	6.0	6.0	6.0	16.0	40.0
Total	\$2.5	\$8.5	\$46.4	\$46.4	\$33.7	\$104.8	\$242.2
Difference							
MARBIDCO	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
POS (Fiscal 2006 Transfer)	0.0	-15.0	0.0	0.0	15.0	0.0	0.0
POS (Fiscal 2006 to 2018 Transfers)	0.0	-16.9	8.5	8.5	0.0	0.0	0.0
Park Development	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	\$0.0	-\$31.9	\$8.5	\$8.5	\$15.0	\$0.0	\$0.0

MARBIDCO: Maryland Agricultural and Resource-Based Industry Development Corporation

POS: Program Open Space

Source: Department of Budget and Management

Exhibit 9 shows the fiscal 2019 revenue and expenditures differences for the transfer tax under current statute and under the BRFA provision. As illustrated, there is a reduction of \$15.0 million allocated to the operating budget, \$2,254,500 for the Forest and Park Service within DNR and \$12,745,500 for PAYGO capital programs. The reduction to the PAYGO capital programs is allocated as follows: POS – State Share – \$6,056,250; POS – Local Share – \$3,381,750; Rural Legacy Program – \$750,000; and the Maryland Agricultural Land Preservation Foundation – \$2,557,500.

Exhibit 9
Transfer Tax Funding Under Statute and the BRFA Provision
Fiscal 2019

	<u>Fiscal 2019</u> <u>Statutory</u>	<u>Fiscal 2019</u> <u>BRFA</u>	<u>Difference</u>
Revenues			
Revenue Estimate	\$221.9	\$221.9	\$0.0
Overattainment	25.1	25.1	0.0
Transfer to General Fund	0.0	0.0	0.0
Repayment – Fiscal 2006 Transfer – Critical			
Maintenance/Natural Resources Development Fund	6.0	6.0	0.0
Repayment – Fiscal 2006 Transfer – Distributed through			
Formula	15.0	0.0	-15.0
Total Revenue	\$268.0	\$253.0	-\$15.0
Expenditures			
Administrative Expenses	\$6.7	\$6.7	\$0.0
Debt Service	7.1	7.1	0.0
Heritage Areas Authority	6.0	6.0	0.0
Forest and Park Service	38.4	36.1	-2.3
Department of Natural Resources – Land Acquisition and Planning			
Program Open Space – State Share	62.0	55.9	-6.1
Program Open Space – Local Share	55.8	52.4	-3.4
Rural Legacy Program	20.8	20.0	-0.8
Natural Resources Development Fund	14.4	14.4	0.0
Critical Maintenance Program	13.0	13.0	0.0
Ocean City Beach Maintenance	1.0	1.0	0.0
Maryland Department of Agriculture – Maryland Agricultural			
Land Preservation Foundation	43.0	40.5	-2.6
Total Expenditures	\$268.0	\$253.0	-\$15.0

BRFA: Budget Reconciliation and Financing Act

Source: Department of Budget and Management; Department of Legislative Services

Chapters 660 and 661 of 2017 (POS – Authorized Transfer to the Maryland Heritage Areas Authority Financing Fund – Increase) authorized up to an additional \$3.0 million (\$6.0 million total) to be provided to the Maryland Heritage Areas Authority. The fiscal 2019 allowance provides the full \$6.0 million. The language in Chapters 660 and 661 provided some latitude for interpretation by noting

that the amount exceeding \$3.0 million be provided from the State's share of funds, which was interpreted as being the State component of POS but with a lack of clarity about whether to include funding allocated to the Maryland Park Service and Forest Service. The Administration took an even broader interpretation of the State's share to mean the entirety of the funding allocated to POS, thus including the POS – State component and the Maryland Park Service and Forest Service as well as the POS – Local component.

The Administration has advised that it intends to submit a supplemental budget to modify the transfer tax formula allocation in order to hold both the Maryland Park Service and Forest Service and the POS – Local component funding harmless from the additional \$3.0 million allocated to the Maryland Heritage Areas Authority. The difference between the transfer tax funding allocation in the fiscal 2019 allowance as introduced and the funding allocation as proposed by the Administration to be reflected in a supplemental budget is shown in **Exhibit 10**. As illustrated, under the modification proposed by the Administration, there would be a decrease of \$1.9 million from the POS – State component offset by increases of \$0.6 million for the Maryland Park Service and Forest Service, \$0.9 million for the POS – Local component, and an increase of \$0.4 million for the Natural Resources Development Fund. **DLS recommends that the funding modification reflected in Exhibit 10 be incorporated in back-of-the-budget bill language for fiscal 2019 and that a BRFA provision be introduced to clarify the meaning of the State's share with respect to the additional funding above \$3.0 million that is allocated to the Maryland Heritage Areas Authority.**

Exhibit 10
Transfer Tax Funding in Fiscal 2019 vs. Accounting for State Share
Fiscal 2019
(\$ in Millions)

	<u>Fiscal 2019</u> <u>Budget</u>	<u>Fiscal 2019</u> <u>Accounting for</u> <u>State Share</u>	<u>Difference</u>
Revenues			
Revenue Estimate	\$221.9	\$221.9	\$0.0
Overattainment	25.1	25.1	0.0
Transfer to General Fund	0.0	0.0	0.0
Repayment – Fiscal 2006 Transfer – Critical Maintenance/Natural Resources Development Fund	6.0	6.0	0.0
Repayment – Fiscal 2006 Transfer – Distributed through Formula	0.0	0.0	0.0
Total Revenue	\$253.0	\$253.0	\$0.0

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	<u>Fiscal 2019 Budget</u>	<u>Fiscal 2019 Accounting for State Share</u>	<u>Difference</u>
Expenditures			
Administrative Expenses	\$6.7	\$6.7	\$0.0
Debt Service	7.1	7.1	0.0
Heritage Areas Authority	6.0	6.0	0.0
Forest and Park Service	36.1	36.7	0.6
DNR – Land Acquisition and Planning			
Program Open Space – State Share	55.9	54.0	-1.9
Program Open Space – Local Share	52.4	53.3	0.9
Rural Legacy Program	20.0	20.0	0.0
Natural Resources Development Fund	14.4	14.8	0.4
Critical Maintenance Program	13.0	13.0	0.0
Ocean City Beach Maintenance	1.0	1.0	0.0
Maryland Department of Agriculture – Maryland Agricultural Land Preservation Foundation	40.5	40.5	0.0
Total Expenditures	\$253.0	\$253.0	\$0.0

DNR: Department of Natural Resources

Source: Department of Budget and Management; Department of Legislative Services

Future Transfer Tax Revenues

As shown in **Exhibit 11**, the transfer tax estimate for fiscal 2019 is \$221.9 million, which increases to \$252.9 million in fiscal 2023. The difficulty in estimating the transfer tax can be seen in the fiscal 2019 numbers: the December 2013 through 2017 estimates for fiscal 2019 have been \$215.6 million, \$191.4 million, \$203.0 million, \$225.1 million, and \$221.9 million, respectively. This underscores the difficulty of funding annual programs from a volatile funding source.

Exhibit 11
Property Transfer Tax Revenue Projections
Fiscal 2009-2023
(\$ in Millions)

Fiscal Year	Dec. 2007 Est.	Dec. 2008 Est.	Dec. 2009 Est.	Dec. 2010 Est.	Dec. 2011 Est.	Dec. 2012 Est.	Dec. 2013 Est.	Dec. 2014 Est.	Dec. 2015 Est.	Dec. 2016 Est.	Dec. 2017 Est.
2009	\$166.3	\$121.5	\$113.7								
2010	181.4	114.7	116.5								
2011	184.0	121.4	149.9	\$113.8							
2012	187.5	130.0	169.2	118.9	\$118.5						
2013	191.5	135.4	176.2	134.0	131.3						
2014	n/a	138.1	190.8	157.4	153.4	\$164.0					
2015	n/a	n/a	201.3	174.2	179.6	187.1	\$193.5	\$161.0			
2016	n/a	n/a	208.5	177.8	196.8	200.6	203.8	174.5	\$184.9		
2017	n/a	n/a	n/a	n/a	206.7	213.2	203.6	181.5	185.0	\$203.2	
2018	n/a	n/a	n/a	n/a	n/a	221.3	209.3	184.0	194.7	214.8	\$213.5
2019	n/a	n/a	n/a	n/a	n/a	n/a	215.6	191.4	203.0	225.1	221.9
2020	n/a	n/a	n/a	n/a	n/a	n/a	n/a	198.0	211.2	234.3	230.4
2021	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	219.2	243.0	238.6
2022	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	251.3	246.7
2023	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	252.9

Source: Comptroller of Maryland; Department of Budget and Management

Program Highlights

The changes in funding for fiscal 2019 are reflected in **Exhibit 12**.

Exhibit 12
DNR Capital Budget Changes
Fiscal 2018-2019
(\$ in Millions)

<u>Program</u>	<u>2018</u>	<u>2019</u>	<u>Difference</u>
POS – Land Acquisition and Local Program	\$71.7	\$111.3	\$39.6
POS – Critical Maintenance	6.0	13.0	7.0
Coastal Resiliency Program	0.5	4.7	4.2
Waterway Improvement Program	11.4	15.0	3.6
POS – Natural Resources Development Fund	11.8	14.4	2.6
Rural Legacy Program	22.9	25.0	2.1
Ocean City Beach Maintenance	2.0	2.0	0.0
Community Parks and Playgrounds	2.5	2.5	0.0
Oyster Restoration Program	2.7	0.3	-2.5
Total	\$131.6	\$188.2	\$56.6

DNR: Department of Natural Resources

POS: Program Open Space

Source: Department of Legislative Services

The highlighted changes in funding are as follows.

POS – Land Acquisition and Local Program

The fiscal 2019 allowance includes \$108.3 million in special funds and \$3.0 million in federal funds. Of this appropriation, \$55.9 million in special funds is allocated to POS – State and \$52.4 million in special funds is allocated to POS – Local; the \$3.0 million in federal funds could be used by either POS – State or POS – Local. Of note, the land acquisition metric has changed in the 2017 Land Preservation, Parks, and Recreation Plans and under the new metric 4 counties have met the goal – Caroline, Garrett, St. Mary’s, and Wicomico – 8 counties have not met the goal, and plans for 11 counties are still being reviewed. DNR notes that it anticipates spending approximately \$2.0 million to protect approximately 500 acres through the purchase of the Conservation Reserve Enhancement Program permanent easement in fiscal 2018 and \$2.4 million to protect approximately 600 acres in fiscal 2019. The overall Baltimore City Direct Grant includes the \$1.5 million base amount provided

in previous years and \$4.0 million in additional funding mandated by Chapter 10 of which \$300,000 is earmarked in aggregate for projects at Herring Run Park, Clifton Park, and Frederic B. Leidig Recreation Center. The use of funds for these projects is reflected in **Exhibit 13**.

Exhibit 13
Baltimore City Direct Grant Funding Specified in Chapter 10 of 2016
Fiscal 2019

<u>Project</u>	<u>Amount</u>	<u>Description</u>
Herring Run Park	\$100,000	Renovate athletic fields in Herring Run Park by installing a new multipurpose field and two new baseball fields as well as renovating an existing baseball field.
Clifton Park	100,000	Renovate an athletic field in Clifton Park by constructing an artificial turf multipurpose field with new sport lighting, scoreboard, fencing, Americans with Disabilities Act pathways, bleachers, and landscaping.
Frederic B. Leidig Recreation Center	100,000	Renovate the field and field house including heating and cooling units, roof replacement, lighting, fencing, and Americans with Disabilities Act compliance.
Total	\$300,000	

Source: Department of Natural Resources

The overall increase in funding of \$39.6 million between fiscal 2018 and 2019 is attributable to the increase in the revenue estimate, the end of transfer tax diversion to the General Fund, and the availability of fiscal 2017 revenue in excess of what was budgeted. The fiscal 2019 funding for POS – State land acquisition would conserve approximately 12,600 acres. DNR notes that the \$72.2 million available for fiscal 2019 from prior-year unencumbered funds reflects the uncertainty of the timing of POS – State purchases and POS – Local encumbrances and expenditures, but notes that it has spent over \$16.0 million in fiscal 2018 on 20 projects that will protect over 4,900 acres, including land for several new land managing units or the extension of existing units. In terms of encumbering and expending future funding, DNR notes that it will work with counties on timely encumbering of POS – Local funding, continue to work with local land trusts to identify and complete POS – State acquisition projects as it has done in fiscal 2017 and 2018, and purchase additional targeted conservation easements that meet program criteria.

POS – Critical Maintenance Program

There is \$13.0 million in the fiscal 2019 allowance for the POS – Critical Maintenance Program. This reflects \$7.0 million in transfer tax special funds and \$6.0 million in general funds that are budgeted in the Dedicated Purpose Account that will be brought in as special funds through a budget

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amendment. The \$6.0 million in general funds reflects part of the repayment for the fiscal 2006 transfer of transfer tax funding to the General Fund. The fiscal 2019 funding level is \$7.0 million more than the fiscal 2018 working appropriation and \$6.0 million more than the amount programmed in the 2017 CIP. As noted in the program description, the critical maintenance project backlog has increased from \$36.4 million and 585 projects in February 2017 to \$44.0 million and 602 projects in February 2018.

The fiscal 2019 budget includes funding for 85 projects in 20 counties and provides for the construction of the following selected larger projects: Sandy Point State Park – renovate South Beach bathhouse (\$600,000); Mount Nebo and Green Ridge Forest, Western Maryland – replace underground tanks (\$550,000); Dan’s Mountain State Park – renovate pool building (\$500,000); Fort Frederick State Park – renovate barracks (\$500,000); Pocomoke River State Park – renovate bathhouse at Shad Landing (\$500,000); Assateague State Park – renovate day use bathhouse (\$450,000); Fair Hill Natural Resources Management Area – renovate Hunter Barn (\$400,000); Greenbrier State Park – renovate Ash Loop shower building (\$250,000); and Greenbrier State Park – renovate Birch Loop shower building (\$250,000). In addition to these projects, there are paving projects in the following State parks: Deep Creek Lake State Park (\$564,000), Elk Neck State Park (\$750,000), Fair Hill Natural Resources Management Area (\$493,000), Greenbrier State Park (\$750,000), Janes Island State Park (\$500,000), Patapsco Valley State Park (\$483,000), Pocomoke River State Park (\$1,200,000), Seneca Creek State Park (\$600,000), and Smallwood State Park (\$500,000).

CRP

The fiscal 2019 capital budget provides \$4,725,000 in GO bonds for the CRP. Funding for this program was initiated in fiscal 2018. The program funds the construction of shoreline improvements for five projects in four jurisdictions and design funds for at least four projects based on a fiscal 2019 solicitation, as shown in **Exhibit 14**. In terms of the requests for fiscal 2019 funding, DNR notes that over 100 local government and nonprofit representatives attended an initial information seminar held in winter 2017 and that it has received applications totaling four times the amount of funding available. One of the components of CRP is the allocation of adaptive management funding for projects. This funding reflects the need to revisit a site to make sure the natural engineering solutions are growing as intended. Future year construction funding is programmed in the 2018 CIP and the State’s share is 100% of the total project cost. There is no funding programmed for the CRP beyond fiscal 2022.

Exhibit 14
Coastal Resiliency Program Project Funding
Fiscal 2019

<u>Shoreline Improvement Projects</u>	<u>Jurisdiction</u>	<u>Amount</u>	<u>Future Request</u>	<u>Description</u>
Franklin Point Park	Anne Arundel	\$1,500,000	\$180,000	Construct 2,500 linear feet of living shoreline at Franklin Point Park using breakwaters and climate-resilient features.
Long View Community	Anne Arundel	125,000	15,000	Construct 250 linear feet of living shoreline at the Long View Community using sills and other living shoreline techniques and climate-resilient features.
Eagle Harbor	Prince George's	875,000	125,000	Construct over 1,000 linear feet of living shoreline at Eagle Harbor using living shoreline techniques and upland treatment to address storm flows from high-intensity rain events.
Deal Island	Somerset	1,230,000	35,000	Construct 1,200 linear feet of shoreline at Deal Island using breakwaters and a dunal system that will provide for an enhanced wetland migration corridor.
St. Catherine's Island	St. Mary's	595,000	20,000	Improve 1,200 linear feet of shoreline at St. Catherine's Island using breakwaters and sills to increase resiliency from erosion associated with sea-level rise and storm surge.
Fiscal 2019 Project Solicitation	Statewide	400,000	4,500,000	
Total		\$4,725,000	\$4,875,000	

Source: Department of Budget and Management

WIP

The WIP's fiscal 2019 allowance includes \$12.5 million in special funds and \$2.5 million in federal funds. This reflects a \$2.0 million increase in special funds and \$1.6 million increase in federal funds relative to the fiscal 2018 working appropriation and a \$6.0 million special fund and \$1.9 million federal fund increase relative to what was programmed in the 2017 CIP. The increase in special funds reflects the current fund balance and expected fiscal 2019 revenues. The increase in federal funds reflects an increase in the maximum Federal Boating Infrastructure Grants Tier 1 grant funding levels. The fiscal 2019 allowance provides for 61 projects throughout the State.

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Several of the larger projects funded in fiscal 2019 are as follows: Cambridge Marine Terminal – New Steel Bulkhead (\$2,000,000), Deep Creek Lake – Dredging of Arrowhead Cove (\$1,115,000), Replace JMTawes Ice Breaking Buoy Tender (\$1,000,000), Prices Creek – Maintenance Dredging (\$800,000), Otter Point Creek and Bush River – Maintenance Dredging (\$750,000), and Solley Cove Park Boat Launch (\$500,000). The Cambridge Marine Terminal has received State funding in the past; the fiscal 2019 funding provides for demolition and removal of an existing failing bulkhead and construction of 645 linear feet of steel bulkhead including utilities and paving of land side area adjacent to the bulkhead. The JM Tawes Ice Breaking Buoy Tender replacement project receives third-year funding in fiscal 2019. The dredging of Arrowhead Cove at Deep Creek Lake in fiscal 2019 is authorized under Chapter 489 of 2015 (BRFA of 2015), which allowed for dredging of ponds, lakes, and reservoirs owned by the State. DLS advises that the \$12.5 million in annual special funds programmed in the 2018 CIP for the five-year planning period may be difficult to achieve without a consistent increase in boat sale revenues from the vessel excise tax. **DLS recommends that the funding for the Cambridge Marine Terminal be deleted given that there is a joint House and Senate budget committee letter from March 18, 2014, stating the intent that no additional State funding be provided for this project beyond the \$4.0 million in cash and the \$2.25 million in-kind contribution of land.**

POS – Natural Resources Development Fund

The POS – Natural Resources Development Fund receives \$14.4 million in special funds through the distribution of transfer tax revenues. This is a \$2.6 million increase over the fiscal 2018 appropriation and \$0.9 million over what was programmed for fiscal 2019 in the 2017 CIP. The fiscal 2019 allowance would fund the following projects: Rocky Gap State Park parking lot improvements (\$3,104,000), Casselman River Bridge (\$1,380,000), New Germany State Park day-use and beach improvements (\$4,375,000), Sassafras Natural Resources Management Area day-use improvements (Phase II) (\$2,543,000), Janes Island State Park cabin replacement and site work (\$1,525,000), Albert Powell Fish Hatchery improvements (\$429,000), and contingency funding for prior-year approved projects (\$1,000,000). Several projects are now scheduled to cost significantly more than prior-year estimates. Regional construction inflation increased by 7.2% during calendar 2017, reflecting a tightening of the labor market and increased construction material costs. In addition, several projects include project elements added to the program since last session.

Some of the more significant increases include the following: \$804,000 for the Albert Powell Fish Hatchery improvements project, which reflects the addition of covered raceways to the project to eliminate bio-hazards brought on by avian and mammalian predators that added \$1,020,200. For Janes Island State Park cabin replacement and site work, the overall project cost has increased from \$1,400,000 to \$2,325,000. DNR notes that there are a number of reasons for the increase: the initial cost estimate did not have the correct size of the cabins being renovated; renovated cabins needed sprinklers and to have the roof raised to meet current code requirements; the architect/engineer did not design to budget; the cabins needed to be raised to accommodate Coast Smart Design; and there were unanticipated stormwater management and landscape costs.

In terms of out-year costs, the Casselman River Bridge project has a future second phase that may require substantial resources to repoint the entire bridge with historic lime mortar, correct drainage issues, replace/patch parapet caps, install anchor rods at bulges, and replace or repair stones throughout the bridge. In acknowledgement of the bridge's listing on the National Register of Historic Places,

DNR notes that it will be reviewing the possibility for funding the second phase of the project from the following sources: Federal Highway Administration – Fixing America’s Surface Transportation grants; Maryland Historical Trust – Maryland Heritage Areas Authority funding – since the project is in the Mountain Gateway to the West certified heritage area; State Highway Administration (SHA) – Federal Transportation Enhancement Program funding; SHA – Maryland Scenic Byways Program; Federal Highway Administration – National Recreational Trails Program; National Park Service – Save America’s Treasures; and the Governor’s Grants Office.

Rural Legacy Program

The Rural Legacy Program receives \$25.0 million in fiscal 2019 comprised of \$20.0 million in special funds and \$5.0 million GO bonds; the GO bond funds are mandated under Section 5-9A-09 of the Natural Resources Article. The funding increase between fiscal 2018 and 2019 of \$1.1 million reflects the additional transfer tax special funds for the reasons noted previously. The fiscal 2019 cost per acre is estimated to be \$3,500, which would allow for the preservation of approximately 7,100 acres.

Community Parks and Playgrounds

The fiscal 2019 allowance includes \$2.5 million in GO bonds for the Community Parks and Playgrounds program, which is level with both the fiscal 2018 appropriation and the amount programmed in the 2017 CIP for fiscal 2019. The budget provides funding for 26 projects in 15 subdivisions. There are three large projects in the fiscal 2019 allowance as follows: White Marsh Playground Replacement (Bowie) – purchase and install new playground equipment and safety surfacing (\$275,000), Meadow Park Lighting Project (Elkton) – upgrade 20-plus year old lighting and electrical service to football field (\$210,000), and Wharf Park Playground Improvements (Centreville) – purchase and install new playground equipment and safety surfacing (\$198,430).

Ocean City Beach Maintenance

The budget provides \$2.0 million for the Ocean City Beach Maintenance program comprised of \$1.0 million from the State and \$1.0 million in special funds for Worcester County (\$460,000), Ocean City (\$460,000), and fund interest (\$80,000), which is counted toward the local contribution. The fiscal 2019 funding is level with both the fiscal 2018 working appropriation and the amount programmed in the 2017 CIP for fiscal 2019. The most recent beach renourishment was conducted between September and December 2017 and was intended to repair the damage from the January 2016 winter storm. The plan for the overall beach renourishment project included two components: (1) emergency repairs due to the winter storm that would be 100% funded by the federal government for an estimated total of \$8.5 million and would include pumping sand onto the beach, storm berm, and dunes to bring the project up to the pre-storm condition; and (2) full design level of protection and nourishment that would be cost shared between the federal government (\$6.1 million, or 53%) and the State, Worcester County, and Ocean City (\$5.4 million, or 47%) to include sand replenishment, dune repairs, fencing repairs, cross-over repairs, dune grass plantings, and replacement of bulkhead access ramps and stairs. While final numbers are not available at this time, there were 905,808 cubic yards of sand placed on the beach and the nonfederal share – split between the State, Worcester County, and Ocean City – cost \$4,581,000. The U.S. Army Corps of Engineers covered more of the renourishment project cost than originally anticipated as a result of increased funding it received to cover damages

from the winter storm. In terms of future actions, DNR has awarded the three-year beach maintenance contract in the amount of \$2,758,746 to Ashton Manor Environmental and will meet with Ocean City and Worcester County in spring 2018 to discuss the need to raise the funding cap due to concerns about future federal funding and the possibility for more damaging storms.

Oyster Restoration Program

The fiscal 2019 allowance includes \$270,000 in GO bond authorization for the Oyster Restoration Program. This is less than both the fiscal 2018 appropriation of \$2.7 million and the 2017 CIP amount of \$8.9 million due to the reduction of the scope of work in the Little Choptank River, which has now completed construction. Little Choptank River's scope of work was reduced due to concerns about the possibility of errors in the construction of the oyster reefs that could lead to an uneven bottom and thus create a navigation hazard for boats. The work being done by the U.S. Army Corps of Engineers in the Tred Avon River was delayed due to concerns about the substrate being used, but this has subsequently been resolved. The fiscal 2019 funding would provide for \$250,000 to plant oyster spat in sanctuaries not previously restored and \$20,000 for the Marylanders Grow Oysters program. The Marylanders Grow Oysters program consists of Marylanders growing oysters in cages for 9 months at their piers that are then planted on existing oyster bars with natural oyster substrate and has grown from 858 cages and 177 participants in the Tred Avon River to 7,000 cages and about 2,000 participants in 30 areas around the bay in addition to over 2,000 students ranging from elementary school to college. Of note, for the second year in a row no funding is provided for Maryland Agricultural and Resource-Based Industry Development Corporation aquaculture loans. No funds were requested for fiscal 2019 because there are capital funds left from fiscal 2017 and other funds exist from loan repayments. The \$7.0 million in funding left over from fiscal 2018 – since the Little Choptank River's scope of work was reduced – will be available for construction of the oyster reef in the newly selected fourth and fifth tributaries to be restored: Breton Bay and St. Mary's River.

Issues

1. Coastal Resiliency Program Will Need New Funding Models

CRP is experiencing a steep learning curve. Fiscal 2018 project estimates are already being modified to reflect better information about project needs and yet the 2018 CIP already reflects final funding for the program in fiscal 2022. Alternative funding models may help the CRP continue its work past fiscal 2022.

Fiscal 2018 Project Estimates

Exhibit 15 shows that there have been project funding changes between the 2017 and 2018 sessions for fiscal 2018 projects, primarily to address more detailed information about project needs. In addition, no funding is provided for the Hurst Creek – Shoreline Improvements Project in fiscal 2019 because the complexity of the project and expected review period have shifted construction to fiscal 2020.

Exhibit 15
Coastal Resiliency Program Project Funding Changes Between 2017 and 2018 Sessions
Fiscal 2018

<u>Jurisdiction</u>	<u>Project Title</u>	2017 Session		2018 Session		Difference		<u>Explanation for Difference in Estimated Cost and Funding</u>
		<u>Estimated Cost</u>	<u>Initial Funding</u>	<u>Estimated Cost</u>	<u>Revised Funding</u>	<u>Estimated Cost</u>	<u>Funding Difference</u>	
Anne Arundel	Franklin Point Park – Shoreline Improvements	\$3,000,000	\$120,000	\$1,750,000	\$70,000	-\$1,250,000	-\$50,000	Since the fiscal 2018 submission, topographic and bathymetric surveys have been completed for the Franklin Point State Park shoreline, and DNR has gained a better understanding of the project extent. A 2,500 linear foot project more accurately reflects the project scope necessary for this resiliency project. The cost of the project has decreased due to the reduction in linear feet.
Anne Arundel	Long View Community – Shoreline Improvements	100,000	15,000	245,000	105,000	145,000	90,000	Since the fiscal 2018 submission, DNR has gained a better understanding of the project's extent. The number of feet to be constructed has increased to include protection of an existing tidal pond. The cost of the project has increased to reflect the project extent. \$75,000 of the updated budget for this project will be carried forward into fiscal 2019 for construction.
Dorchester	Hurst Creek – Shoreline Improvements	1,500,000	190,000	1,390,000	80,000	-110,000	-110,000	Since the fiscal 2018 submission, additional bathymetric surveys have been completed for the Hurst Creek site to better inform project design. The budget has been modified to more accurately reflect the site-specific, dynamic conditions.

<u>Jurisdiction</u>	<u>Project Title</u>	<u>2017 Session</u>		<u>2018 Session</u>		<u>Difference</u>		<u>Explanation for Difference in Estimated Cost and Funding</u>
		<u>Estimated Cost</u>	<u>Initial Funding</u>	<u>Estimated Cost</u>	<u>Revised Funding</u>	<u>Estimated Cost</u>	<u>Funding Difference</u>	
Prince George's	Eagle Harbor – Shoreline Improvements	1,150,000	150,000	1,100,000	100,000	-50,000	-50,000	Since the fiscal 2018 submission, DNR has worked with the community to develop resilience objectives that better address the community's concerns. These objectives include stormwater management and shoreline issues that are being incorporated into the coastal resiliency project. The budget has been modified to more accurately reflect the community-identified needs and practices.
Somerset	Deal Island – Shoreline Improvements	300,000	35,000	1,335,000	70,000	1,035,000	35,000	DNR hoped to leverage a potential federal grant to cover more of the upfront costs for the Deal Island project. In the end, the State was unsuccessful in meeting the specific requirements of this federal grant.
St. Mary's	St. Catherine's Island – Shoreline Improvements	500,000	30,000	730,000	115,000	230,000	85,000	Since the fiscal 2018 submission, DNR has gained a better understanding of the project's extent and evaluated the transportation and access needs for this site. Based on extensive experience managing projects of similar sizes and magnitudes that require boat access, the budget has been modified to more accurately reflect the cost. \$70,000 of the updated budget for this project will be carried forward into fiscal 2019 for construction.
Total		\$6,550,000	\$540,000	\$6,550,000	\$540,000	\$0	\$0	

DNR: Department of Natural Resources

Source: Department of Budget and Management; Department of Natural Resources

Funding Alternatives

DNR acknowledges that the 2018 CIP reflects final funding for the CRP but notes that there is an ongoing need for CRP and that interest from local governments has exceeded initial expectations. As a result, DNR is considering funding alternatives for the future. Such alternatives include no-interest loans, cost-share agreements, and taxing districts. In addition, DNR is exploring public and private development funding models similar to that of the Rhode Island Infrastructure Bank, which was created to finance investments in the State's infrastructure and green initiatives. MDE's Water Quality Financing Administration is a similar entity in Maryland. DNR is also working with the University of Maryland Environmental Finance Center on a decision-making tool that would ultimately incentivize investment in resilience projects and programs. **DLS recommends that DNR comment on what an entity like the Rhode Island Infrastructure Bank would look like in Maryland and the financial calculations that support and incentivize investment in resilience projects and programs.**

2. Capital Development Program Staffing Needed

Through the Critical Maintenance Program and the Natural Resources Development Fund, DNR manages an enormous number of individual projects to ensure that State parks remain operational and open to the public. In recent years, the department has struggled with maintaining an optimal staffing level to ensure timely project administration. While the department has filled vacant project management positions and is back to a full staffing level, a component of the transfer tax replacement plan required by Chapter 10 would provide an increase in the annual funding for critical maintenance and development projects that could strain staffing resources and ultimately project management.

In order to help alleviate some of the strains on the Critical Maintenance Program and the Natural Resources Development Fund, staffing and funding changes are under consideration. For fiscal 2019, there is POS administrative fee revenue budgeted in DGS: \$61,761 in the Office of Procurement and Logistics and \$141,052 in the Office of Facilities Planning, Design, and Construction, or a total of \$202,813. These funds are intended to allow DGS to hire additional staff to support DNR in fiscal 2019. However, the budget does not provide additional regular positions in DGS to support this staffing initiative. Instead, it is anticipated that the additional funds will be used to fill contractual positions. DNR is also exploring the possibility of reassigning vacant positions to support the Critical Maintenance Program and Natural Resources Development Fund.

The use of P3s could provide an alternative method of completing projects. DNR currently uses lease agreements and resident curatorship arrangements as a form of P3 and is currently in the process of developing a number of new lease arrangements with private individuals and local governments. For instance, the Maryland Park Service executed a lease agreement with the Warrior Canine Connection at Seneca Creek State Park. This agreement benefits veterans and has resulted in extensive improvements to infrastructure in Seneca Creek State Park. **DLS recommends that DNR comment on the optimal staffing levels within DNR and DGS in order to complete the planned Critical Maintenance Program and Natural Resources Development Fund projects.**

3. Oyster Shell Access and Restoration Work

In January 2014, Maryland signed the new Chesapeake Bay Agreement, which updated the number of tributaries that Maryland is called upon to restore with oysters. The previous Chesapeake Bay Agreement cited the restoration of 20 tributaries – 10 in each of Maryland and Virginia – by the 2025 Chesapeake Bay restoration deadline. The 2014 Chesapeake Bay Agreement reduced the goal by half – 5 tributaries restored in each of Maryland and Virginia.

Oyster Restoration Tributaries

Maryland has now selected a total of five tributaries for oyster restoration. The first three tributaries chosen were Harris Creek, the Little Choptank River, and the Tred Avon River. In December 2017, Breton Bay and St. Mary's River were added to the list of tributaries for oyster restoration. The *Consolidated Strawman Management Plan Proposal: Proposed Changes to Current Oyster Management Areas* presentation to the Oyster Advisory Commission by DNR on February 13, 2017, informed the selection of the two remaining tributaries to be restored.

The *Consolidated Strawman Management Plan Proposal: Proposed Changes to Current Oyster Management Areas* reflected the following oyster restoration guidelines: keep the financial investment low; make sure the selected sanctuaries are not in close proximity to the Choptank River complex; moderate between the sanctuaries being too big or too small; ensure there is potential to restore oyster bottom; and require a good chance of success. In terms of restoration activity, the plan notes the following: that shell is limited and the desire is to use it in the public fishery areas; a mixture of alternative substrate and shell should be used in the eventual five restoration partnership sanctuaries; and that stone should always be capped with shell. Updated information on the Breton Bay and St. Mary's River sanctuaries is shown in **Exhibit 16**.

Exhibit 16 Breton Bay and St. Mary's River Oyster Sanctuary Specifications February 2018

<u>Sanctuary</u>	<u>Tier</u>	<u>Year Est.</u>	<u>Acres: Total/Historic Oyster Bottom</u>	<u>Oyster Trends</u>	<u>Determining Characteristics for Selection</u>
Breton Bay	2	2010	3,212/888	Abundance: no change Biomass: decreasing Survival: increasing	The oyster bottom is in need of restoration; the salinity supports spat set that is low and thus has the potential to be increased; disease mortality risk is low; there is the potential for a spillover benefit of spat to the bars outside of Breton Bay that are open to the oyster fishery; the area is enforceable due to its size and narrowness; and the area is on the Western Shore that was considered a favorable feature.

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<u>Sanctuary</u>	<u>Tier</u>	<u>Year Est.</u>	<u>Acres: Total/Historic Oyster Bottom</u>	<u>Oyster Trends</u>	<u>Determining Characteristics for Selection</u>
St. Mary's River	1	2010	1,304/89	Abundance: no change Biomass: increasing Survival: increasing	Spat sets are high such that restoration may accelerate quickly; the oyster bottom is in good condition overall that can reduce the need to plant habitat (seed-only plantings may be the major strategy, which will reduce costs); disease mortality risk is low; there is the potential for a spillover benefit of spat to the lower river bars that are open to the oyster fishery; the area is enforceable due to its size and narrowness; and the area is on the Western Shore that was considered a favorable feature.

Source: Department of Natural Resources

Man O'War Shoal

Obtaining sufficient inexpensive shell substrate is a key component of DNR's oyster restoration success. The Man O'War Shoal near the mouth of the Patapsco River is a leading candidate for shell provision. DNR submitted a permit to dredge up to 5 million bushels of shell from the Man O'War Shoal in July 15, 2015. Public hearings in early February 2016 reflected mostly opposition at the Baltimore hearing and mostly support at the Cambridge hearing. The permit is still under review by MDE and the U.S. Army Corps of Engineers' regulatory division; both are awaiting one additional approval step before they make their decisions. After review by MDE and the U.S. Army Corps of Engineers, the next step is for the permit application to be heard by BPW. **DLS recommends that DNR comment on the timeline for the restoration of the Breton Bay and the St. Mary's River oyster sanctuaries, and the importance of the oyster shell from the Man O'War Shoal in this effort.**

Updates

1. Bloede Dam Removal Status

Bloede Dam is located in the Patapsco River State Park and was built in 1907. The dam is a public safety threat and is an obstacle for fish passage. The overall removal cost increased to \$16,757,000 as of last year's analysis, of which the State has provided \$1,269,000 through the Natural Resources Development Fund. The fiscal 2018 appropriation includes \$2,000,000 for the dam removal, which brings the total State contribution to \$3,269,000, or 19.5%, of the total estimated cost. The project is currently in its first phase, which entails the relocation of the 42-inch sanitary sewer line. The removal of the dam is planned to begin in September 2018 and the project is scheduled for completion in April 2019.

The \$2,000,000 budgeted in fiscal 2018 is insufficient to complete the project. An additional \$1,000,000 is requested for fiscal 2019 – presumably from the Natural Resources Development Fund's contingency fund. The increased project cost estimate stems from the general hazards of working in the Patapsco River and site conditions that differ from what was shown on the approved plans as follows: the contractor hit denser rock than was shown on the construction documents; the sanitary sewer information was at a lower reference point than expected and so deeper excavation is required; and Baltimore County is requiring a blow off valve that was missed during the design review.

2. College of Southern Maryland Funding for the La Grange Property

Fiscal 2018 budget bill language restricts \$980,000 in the POS – State land acquisition special fund appropriation to provide a grant to the College of Southern Maryland to purchase the La Grange property located in Charles County, the home of Dr. James Craik and the birthplace of Josiah Henson, a leader of the Underground Railroad. In addition, the language requires the College of Southern Maryland to convene a workgroup of stakeholders, including representatives of the Town of La Plata, St. Mary's College, and the Charles County Chapter of the National Association for the Advancement of Colored People, to determine and report on the short- and long-term plan for the property and historical structures.

The workgroup was convened on May 23, 2017, and it was determined that the College of Southern Maryland would not take ownership of the property. A second meeting of the workgroup was convened on August 15, 2017, and it was determined that the National Park Service would be engaged as a possible recipient of the property. As of November 17, 2017, the date of the College of Southern Maryland's report, no further meetings had taken place and it was determined that a longer term resolution to the preservation of the La Grange property should be sought.

Executive's Operating Budget Impact Statement – State-owned Projects (\$ in Millions)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Rocky Gap State Park Parking Lot Improvements					
Estimated Operating Cost	\$0.000	\$0.006	\$0.002	\$0.002	\$0.002
Estimated Staffing	0.00	0.00	0.00	0.00	0.00
Explanation: The Rocky Gap State Park Parking Lot Improvements project reflects increased utilities due to lights (assuming 3% inflation per year) and mulch and plants for stormwater management bio-retention areas – larger set-up costs in fiscal 2020 and maintenance costs in the out-years.					
New Germany State Park Day-use and Beach Improvements					
Estimated Operating Cost	\$0.000	\$0.029	\$0.007	\$0.007	\$0.007
Estimated Staffing	0.00	0.00	0.00	0.00	0.00
Explanation: The New Germany State Park Day-use and Beach Improvements project reflects increased costs for utilities, cleaning services, supplies for increased and larger size rentals, kitchen appliances, and tables and chairs for rentals. The kitchen appliances and tables and chairs are one-time costs for fiscal 2020. The Department of Natural Resources (DNR) notes that it anticipates approximately \$6,000 in additional rentals from the facility annually.					
Sassafras Natural Resources Management Area Day-use Improvements (Phase II)					
Estimated Operating Cost	\$0.000	\$0.090	\$0.077	\$0.078	\$0.080
Estimated Staffing (Regular Position)	0.00	1.00	1.00	1.00	1.00
Estimated Staffing (Contractual Full-time Equivalents (FTE))	0.00	1.00	1.00	1.00	1.00
Explanation: The Sassafras Natural Resources Management Area Day-use Improvements (Phase II) project reflects a 1.0 park technical lead position to oversee daily operations and a 1.0 seasonal ranger/season technician contractual FTE to oversee daily operations and maintenance starting part time in fiscal 2020 and then full time in fiscal 2021. Other costs include one-time fiscal 2020 costs for a three-quarter ton truck, gator, tractor, mower, hand tools, blowers, and picnic tables. Ongoing costs include phone and Internet service extended to the maintenance building; new utilities with a 2% increase annually; fuel and maintenance with a 2% increase annually; dumpster and noxious weed spraying; and expenditures associated with the new pavilion, restroom, and maintenance building. DNR notes that once the pavilion is available, there could be an increase of \$4,000 in special fund revenue each year.					

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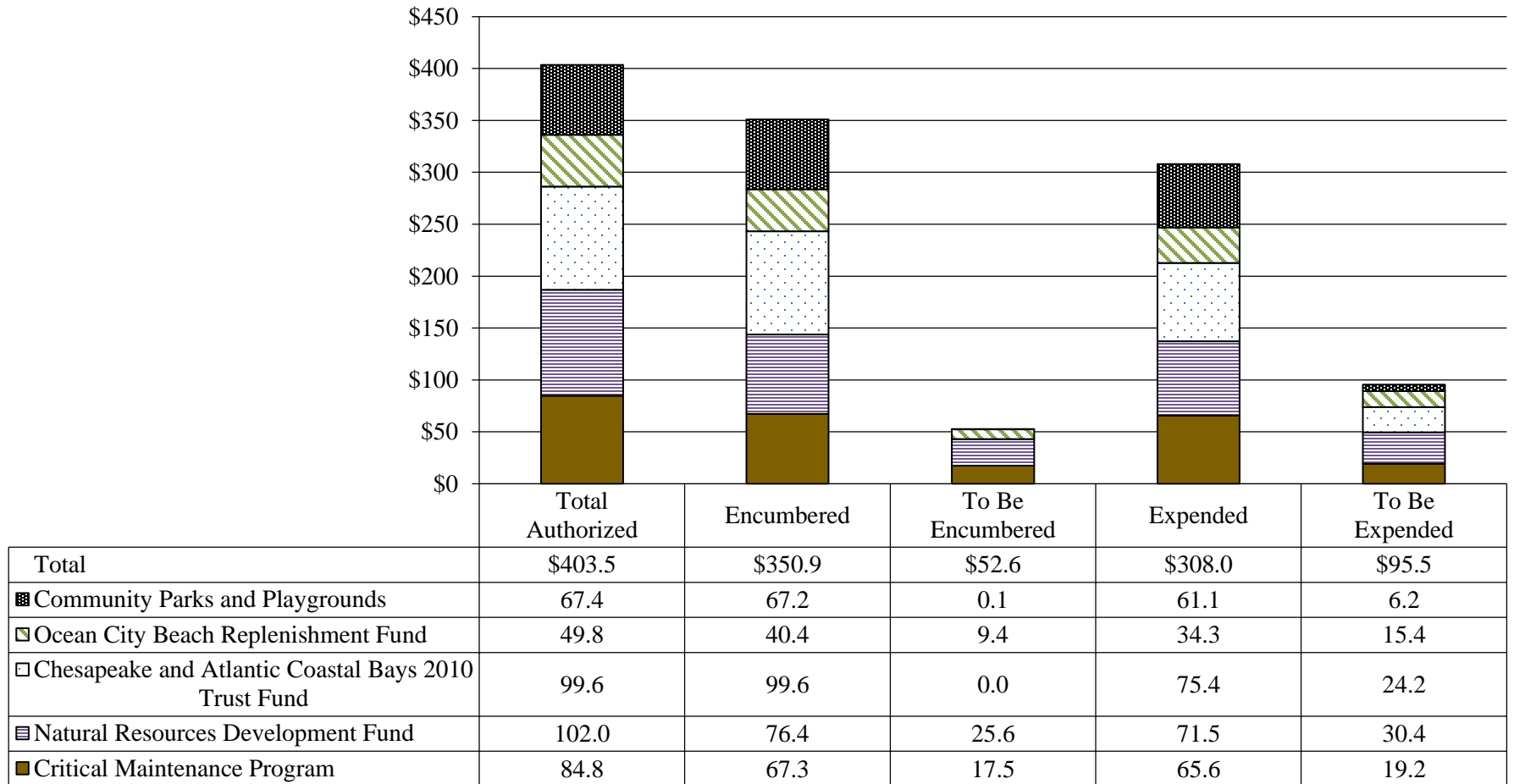
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
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Total Operating Impact						
	Estimated Operating Cost	\$0.000	\$0.125	\$0.086	\$0.087	\$0.089
	Estimated Staffing (Regular Position)	0.00	1.00	1.00	1.00	1.00
	Estimated Staffing (Contractual FTE)	0.00	1.00	1.00	1.00	1.00

Encumbrances and Expenditures

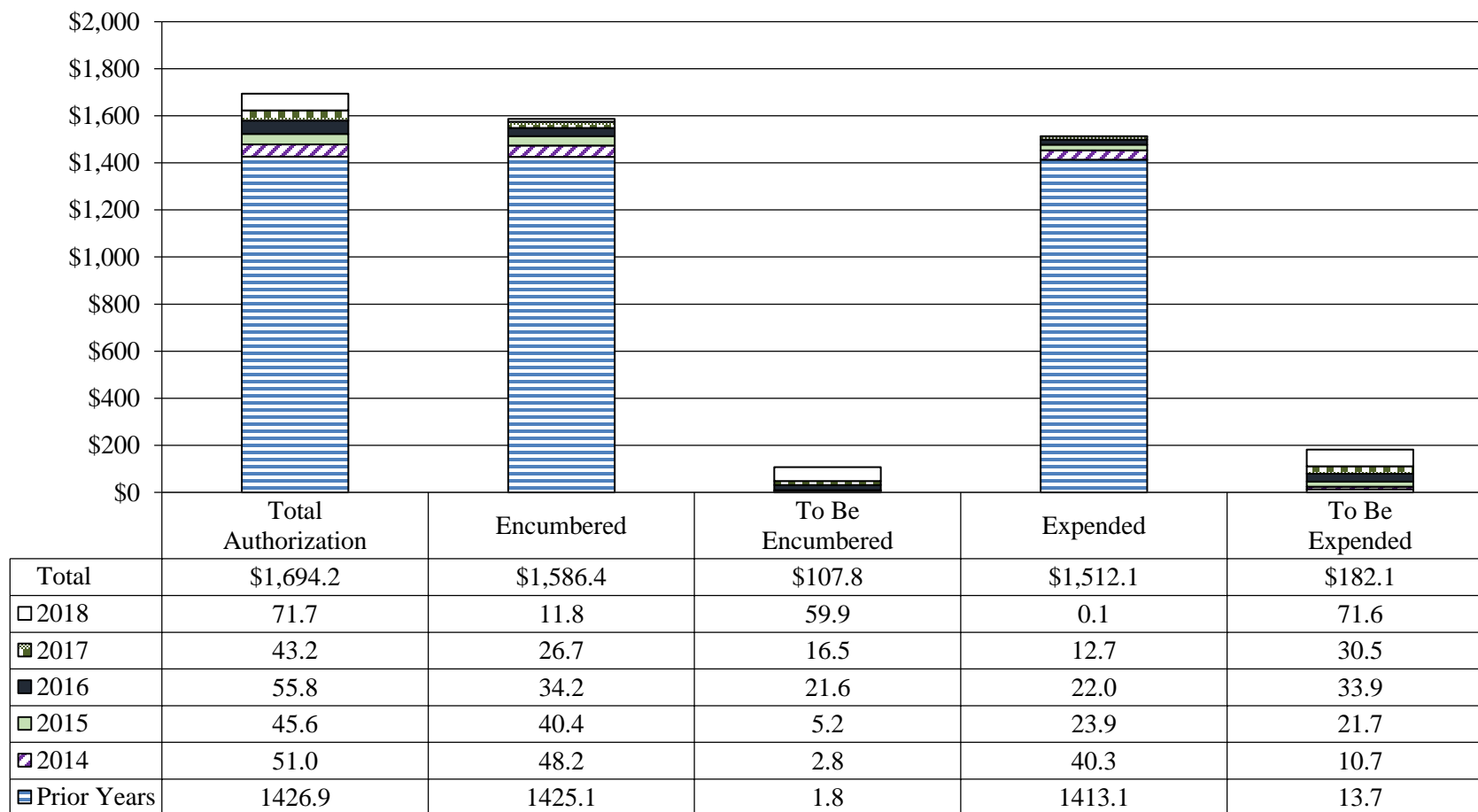
Progress toward encumbering and expending funding by program is shown in **Exhibits 17** and **18**, followed by a discussion of encumbrances and expenditures for selected programs.

Exhibit 17
Selected Program Encumbrances and Expenditures
Program Inception through January 2018
(\$ in Millions)



Source: Department of Budget and Management; Department of Natural Resources

Exhibit 18
Program Open Space Encumbrances and Expenditures
Program Inception through January 2018
(\$ in Millions)



Source: Department of Budget and Management; Department of Natural Resources

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- **POS:** Through January 2018, approximately \$13.7 million in POS funding prior to fiscal 2014 remains to be expended. The majority of the funding that remains to be expended is POS – Local funds, which are encumbered upon approval of BPW. However, the funds are only expended when a county or municipality submits a request for reimbursement subsequent to an inspection by program administrators to verify that the work covered by the request for reimbursement has been satisfactorily completed. In addition, some projects can get delayed due to funding or staffing levels at the local level that can further delay the expenditure of funds.
- **Rural Legacy Program:** The Rural Legacy Program has encumbered all of its funding from all fiscal years. The program is able to do this because of the high demand for funding, which means that there are ready-to-proceed projects in the funding queue and because the program is administered in partnership with local sponsors.
- **Ocean City Beach Maintenance:** There are fairly large unencumbered and unexpended balances for the Ocean City Beach Maintenance program, which have been reduced somewhat by the calendar 2017 simultaneous winter storm repairs and renourishment project.
- **Natural Resources Development Fund:** There has been an increase in the amount to be encumbered that now stands at \$25.6 million. However, there is only \$235,693 left to be encumbered and \$1,359,861 left to be expended from funding provided before fiscal 2014. This funding is connected to the Western Maryland Rail Trail project and to contracts that are anticipated to be awarded in spring 2018.
- **Community Parks and Playgrounds:** The Community Parks and Playgrounds program has \$0.1 million that remains to be encumbered and \$6.2 million that remains to be expended. There remains \$360,000 to be expended from before fiscal 2014. If a project is not moving forward, then funds are reverted to the program and awarded to another project applicant.
- **WIP:** There remains approximately \$6.0 million still to be expended from before fiscal 2014. This funding is associated with active projects. Reasons for the delay in expenditures include the normal construction process as well as environmental requirements and reviews, time of year restrictions, and unforeseen issues that can cause delays for construction on waterways and for dredging projects.
- **Critical Maintenance Program:** The Critical Maintenance Program has approximately \$17.5 million to be encumbered. Of the fiscal 2014 funding, approximately \$1.0 million is still to be encumbered and \$1.9 million is still to be expended. A portion of this funding – \$950,000 – is programmed for dune repairs at Assateague State Park that was the subject of a bid protest in calendar 2017, and thus is now planned to be awarded in April 2018 with construction expected to begin in October 2018. The remaining funding will be encumbered for restoration of the dune from damages caused by the winter storm.
- **CRP:** Fiscal 2018 funding will be expended once the projects reach the 30% design stage. The remaining \$145,000 of unencumbered funds will be applied toward construction of projects in fiscal 2019.

PAYGO Recommended Actions

- | | <u>Amount
Reduction</u> |
|---|------------------------------------|
| 1. Reduce funding for the Cambridge Marine Terminal – New Steel Bulkhead project. The House and Senate budget committees wrote a joint letter on March 18, 2014, stating the intent that no additional funding be provided for the Cambridge Marine Terminal project beyond the \$4,000,000 in cash and the \$2,250,000 in-kind contribution of land. Therefore, this action reduces the funding for the Cambridge Marine Terminal – New Steel Bulkhead project. The Department of Natural Resources should propose a new use of the Waterway Improvement Program funding in a supplemental budget item for the budget committees' consideration. | \$2,000,000 SF |
| 2. Concur with Governor's allowance of \$1,000,000 in special funds for the Ocean City maintenance local funding. | |
| 3. Add the following section: | |

SECTION XX. AND BE IT FURTHER ENACTED, That for fiscal 2019 \$1,900,000 of the special fund appropriation for Land Acquisitions under K00A05.10 Outdoor Recreation Land Loan shall be reduced.

Further, it is the intent of the General Assembly that the following special fund appropriations be increased in fiscal 2019 by the amounts specified:

- (1) K00A04.01 Statewide Operations – \$600,000;
- (2) K00A05.10 Outdoor Recreation Land Loan – Allowance, Local Projects – \$900,000; and
- (3) K00A05.10 Outdoor Recreation Land Loan – Department of Natural Resources Capital Improvements: Natural Resource Development Fund – \$400,000.

Authorization is granted to the Department of Natural Resources to process a special fund budget amendment to increase the appropriations as noted above.

Explanation: The fiscal 2019 budget as introduced reflected the addition of \$3,000,000 in transfer tax funding for the Maryland Heritage Areas Authority Financing Fund in the

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Maryland Department of Planning as authorized by Chapter 660 and 661 of 2017 (Program Open Space (POS) – Authorized Transfer to the Maryland Heritage Areas Authority Financing Fund). This additional funding was deducted from the overall amount allocated to POS. However, Chapters 660 and 661 specified that the additional \$3,000,000 be provided from the State’s share of funds under POS. Therefore, this action reallocates the funding in accordance with legislative intent.

4. Add the following section:

AND BE IT FURTHER ENACTED, That no monies in this budget may be used for the Cambridge Marine Terminal.

Explanation: The fiscal 2019 allowance includes a \$2,000,000 Waterway Improvement Program grant to the Cambridge Marine Terminal – New Steel Bulkhead project in the Department of Natural Resources’ pay-as-you-go capital budget. The House and Senate budget committees wrote a joint letter on March 18, 2014, stating the intent that no additional funding be provided for the Cambridge Marine Terminal project beyond the \$4,000,000 in cash and the \$2,250,000 in-kind contribution of land. Therefore, this action prohibits the use of any funding in the fiscal 2019 budget for the Cambridge Marine Terminal.

Total Special Fund Reductions	\$2,000,000
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GO Bond Recommended Actions

1. Approve the \$2,500,000 general obligation bond authorization for Community Parks and Playgrounds to provide funds for grants to local governments to design and construct capital-eligible park and playground improvement projects.
2. Approve the \$5,000,000 general obligation bond authorization for the Rural Legacy Program to provide funds for the purchase of conservation easements and the acquisition of land.
3. Approve the \$4,725,000 general obligation bond authorization for the Coastal Resiliency Program to provide funds for the acquisition, design, and construction of shoreline restoration and other projects to protect coastal infrastructure, and for post implementation monitoring and adaptive management.
4. Approve the \$270,000 general obligation bond authorization for the Oyster Restoration Program to provide funds to design and construct oyster habitat restoration projects.